

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

---

Status Review

# **Littlefield Unified School District No. 9**

As of April 19, 2002

---



---

**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

## Contact Person

---

**Jerry Strom**, Accounting Services Manager  
jstrom@auditorgen.state.az.us

Copies of the Auditor General's reports are free.  
You may request them by contacting us at:

**Office of the Auditor General**  
**2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333**

Additionally, many of our reports can be found in electronic format at:  
[www.auditorgen.state.az.us](http://www.auditorgen.state.az.us)



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

September 18, 2002

Governing Board  
Littlefield Unified School District No. 9  
P.O. Box 730  
Littlefield, AZ 86432-0730

Members of the Board:

We completed a status review of deficiencies cited in the summary accompanying our September 25, 2001, letter. The summary in that letter describes the deficiencies cited in our status review conducted as of June 8, 2001. The purpose of our most recent status review, conducted as of April 19, 2002, was to determine whether the District is now in compliance with the *Uniform System of Financial Records* (USFR). Our review, which consisted primarily of inquiries and selective testing of accounting records and control procedures, was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all instances of noncompliance with the USFR are disclosed.

We noted that the District has made some progress toward complying with the USFR. However, because of the number and nature of the remaining deficiencies, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's continued noncompliance. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in the status review report.

Sincerely,

Debra K. Davenport  
Auditor General



# TABLE OF CONTENTS

Introduction	1
Recommendation 1: The District should establish stronger controls over its expenditures	2
Recommendation 2: The District should better control its student activities monies	3
Recommendation 3: The District should strengthen controls over food service cash receipts	4
Recommendation 4: The District should have stronger controls over the Maintenance and Operation (M&O) Fund revolving account	5
Recommendation 5: The District should take greater care to report student attendance accurately	5
Recommendation 6: The District should maintain an accurate fixed assets list	6

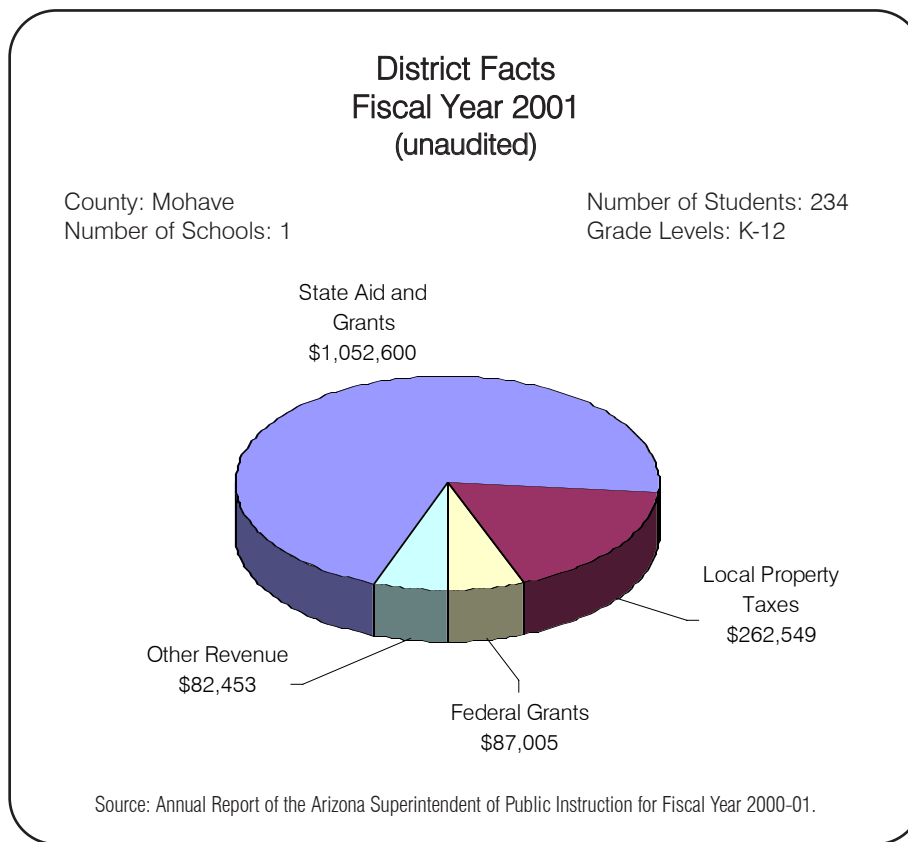


# INTRODUCTION

Littlefield Unified School District No. 9 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.4 million received in fiscal year 2000-01 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District has not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should establish stronger controls over its expenditures

The District spends tax dollars to purchase various goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases serve an educational or public purpose, it obtains the best possible value for its money, and it properly processes those transactions.

However, the District did not always spend its money for an appropriate educational or public purpose. For example, the District paid hourly employees a salary instead of the amounts due for actual hours worked. As a result, our tests disclosed that the District overpaid an employee. Further, the District failed to pay its credit card bills in full each month. As a result, it had to pay approximately \$300 in finance and late charges for December 2001 through March 2002. Also, a District credit card was used to purchase food for a teachers' meeting.

The District may not always have received the best value for the tax dollars it spent. For example, the District failed to follow USFR guidelines that help to ensure competitive purchasing for purchases between \$5,000 and \$15,000, which require at least three oral price quotations for each purchase. Further, the District was lax about ensuring that employees inspected and counted items received to be sure that orders were complete and in good condition. Finally, the District did not always make sure that purchases were properly approved, invoices were accurate, bills were paid in the correct fiscal year, and amounts were posted to the correct expenditure classifications. In fact, one credit card receipt was physically altered to allow for payment in the next fiscal year.

In addition, the District did not insist that employees always sign their time cards and have them approved by a supervisor to ensure accuracy. Further, the District lacked an adequate system to account for employees' compensatory time and personal leave balances. The District also failed to insist that employees complete all sections of their travel claim forms and submit itemized receipts to support those claims.

## Recommendations

To exercise good stewardship over its expenditures, the District should establish and follow the policies and procedures listed below:

### General

- Ensure that all expenditures serve educational or public purposes.
- Pay all bills promptly.

- Adhere to School District Procurement Rules and USFR guidelines. Specifically, if the District is unable to obtain three oral price quotations for purchases between \$5,000 and \$15,000, it should document that fact. State the vendors contacted and the reason they refused to supply a quotation, if known.
- Assign an employee, who is not involved in purchasing, the duty of receiving goods and preparing, signing, and dating a receiving report that verifies the number of items received and that they were in good condition. If the District uses a copy of the purchase order as the receiving report, the quantities ordered should not be shown on that copy.
- Match all vendor invoices with all supporting documentation, such as purchase orders and receiving reports, and check the invoices for mathematical accuracy. These procedures should also apply to credit card bills; however, the supporting documentation should consist of credit card receipts, and related vendor receipts when applicable. The receipts should clearly show the goods or services purchased and the employee making the purchase. Further, the employee must have been authorized to use the credit card.
- Pay for purchases in the correct fiscal year.
- Code expenditure transactions to the correct expenditure classifications.
- Pay claims for employee travel expenses only when supported by a completed travel claim and applicable receipts.

## Payroll

- Pay hourly employees only for the actual hours worked.
- Have employees total the time worked on their time cards and sign them. Have supervisors approve the time cards, and then retain the time cards to support the payroll amounts paid.
- Establish and use a system to account for accruing and using compensatory time.
- Have employees who wish to take personal leave prepare written requests. These documents will help the District maintain accurate leave balances.

USFR guidelines require:

- Oral quotations for purchases between \$5,000 and \$15,000.
- Written quotations for purchases between \$15,000 and \$31,338.

School District Procurement Rules apply to purchases over \$31,338.

## The District should better control its student activities monies

Student activities monies are raised by students and are then held by the District for safekeeping. Therefore, the District has a fiduciary duty to ensure that these monies are not misused, lost, or stolen.



However, the District made disbursements from the student activities bank account without the applicable student club's approval. In addition, the District did not prepare purchase orders or retain vendor invoices that would have supported some student activities disbursements. Finally, the student activities treasurer did not submit a monthly report of activity in the student clubs to the Governing Board.

## Recommendations

Student activities disbursements must be approved by or on behalf of the appropriate club and approval should be documented in student club minutes. The club sponsor should prepare and submit a student activities requisition form, which is used to document that the club's cash balance is adequate to cover the amount of the disbursement and that the disbursement is appropriate. A student activities purchase order should be used for goods or services ordered by the District, and the invoice should be retained to support the disbursement.

In addition, the student activities treasurer should submit a report of student activities cash receipts, disbursements, transfers, and cash balances to the Governing Board monthly.

A sample monthly activity report is available on USFR page X-H-28.

## The District should strengthen controls over food service cash receipts

Although the District's primary food service mission is to provide breakfasts and lunches to students, it may allow its employees to purchase food on a cash basis. However, the District improperly allowed adults to charge food purchases. In addition, the District must account for food service receipts based on the number of meals sold. However, the District failed to reconcile daily sales to cash collections, which would help ensure the amount of cash received was accurate.

## Recommendations

The District should collect any amounts owed from previous adult charge sales and prohibit adults from charging meals in the future. In addition, the District should reconcile daily sales to cash collections to reduce the possibility of monies being lost, stolen, or misused.

A sample Daily Cash Reconciliation Report is shown on USFR page X-F-19.

## The District should have stronger controls over the Maintenance and Operation (M&O) Fund revolving account

Controls over the M&O Fund revolving bank account help ensure that disbursements are for appropriate purposes only and are properly approved. However, the District lacked proper controls. For example, account monies were used to pay for food at a parent-teacher conference, which was not an appropriate purpose, and check requests were not always prepared.

### Recommendations

To properly control its M&O Fund revolving bank account, the District should:

- Restrict its use to approved purposes only, such as postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements. Salaries and wages may not be paid from this account.
- Prepare and retain approved check requests for all disbursements.

## The District should take greater care to report student attendance accurately

The State of Arizona provides funding to school districts based on average daily membership and attendance. Accurate reporting is essential to ensure that the District receives its fair share of State Aid. However, the District failed to record membership and absences accurately. As a result, it overstated its membership days.

ADE provides guidance for attendance and reporting requirements in its *Instructions for Required Reports*.

### Recommendations

To help ensure accurate student membership and absence reporting, the District should:

- Periodically reconcile the computer attendance printouts to the teachers' attendance records.
- Ensure that entries and withdrawals are recorded in the computer attendance system based on properly completed entry and withdrawal forms.
- Withdraw students with 10 consecutive days of unexcused absences as of the last day of attendance.

USFR pages VI-E-2 and 3 include the information that should be shown on the fixed assets list.

## The District should maintain an accurate fixed assets list

The District has invested a significant amount of money in its fixed assets, which consist of land, buildings, and equipment. Good stewardship requires the District to have an accurate list of these assets and to document the values assigned to them. However, the District did not include all assets and some required information on its list. The District also failed to retain count sheets of equipment items from a physical inventory conducted in December 2001. Further, the District did not reconcile capital expenditures to current-year capitalized assets. In addition, the District lacked documentation to verify the values assigned to two buildings.

### Recommendations

The following steps can help the District ensure that its fixed assets list is accurate and complete:

- Update the list annually for items purchased and disposed of, ensuring that the required information is recorded for each asset. When a physical inventory is taken, the District should reconcile the inventory to the list and retain documentation of the physical inventory.
- Reconcile items added to the list during the fiscal year to capital expenditures for that year and make all necessary corrections. This reconciliation helps ensure that all items purchased during the year were added to the list.
- Retain cost documentation for all items added to or removed from the list. If the District cannot locate documentation to support the actual costs of its buildings or other assets, it may use an estimated historical cost obtained from an appraisal, Governing Board meeting minutes, or bond issue documents.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital expenditures to current-year capitalized assets.